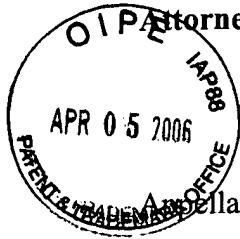


04-06-06

AF 13627  
\$



Attorney Docket No.: 3263/BRWN (021180-00053)

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE BOARD OF PATENT APPEALS AND INTERFERENCES**

Appellants: Owen H. Brown, et al.

Serial No.: 10/010,340

Filed: December 5, 2001

Title: SECURE DIGITAL ESCROW ACTION TRANSACTION...

Group Art Unit: 3627

Examiner: Gerald J. O'Connor

April 5, 2006

Commissioner for Patents  
P.O. Box 1450  
Alexandria, VA 22313-1450

**BRIEF ON APPEAL**

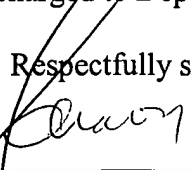
SIR:

Applicant hereby petitions for a one-month extension of time, a petition pursuant to 37 C.F.R. 1.136(a) and authorization to charge the requisite fee being enclosed.

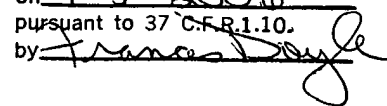
Enclosed herewith is a Brief on Appeal in triplicate and charge the Deposit Account No. 50-1290 the fee of \$250.00.

Any fee due with this paper may be charged to Deposit Account No. 50-1290.

Respectfully submitted,

  
Samson Helfgott  
Reg. No. 23,072

**CUSTOMER NUMBER 026304**  
Telephone: (212) 940-8683  
Fax: (212) 940-8986 or 8987  
Docket No.: 3263/BRWN (021180-00053)

Filed by Express Mail  
(Receipt No. EV 132 743144MS)  
on 4-5-2006  
pursuant to 37 C.F.R. 1.10.  
by 



**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE BOARD OF PATENT APPEALS AND INTERFERENCES**

Appellants: Owen H. Brown, et al.  
Serial No: 10/010,340  
Filed: December 5, 2001  
For: SECURE DIGITAL ESCROW ACTION TRANSACTION...  
Group: 3627  
Examiner: Gerald J. O'Connor

**APPELLANT'S BRIEF**

April 5, 2006

MailStop: Patent Appeal (Fee)  
Commissioner for Patents  
P.O. Box 1450  
Alexandria, VA 22313-1450

Sir:

This Appeal Brief is being filed under 37 CFR 41.37 in connection with the appeal of the above-identified application, a Notice of Appeal having been filed on December 22, 2005 together with a Pre-Appeal Brief Request for Review for which a Notice of Panel Decision from Pre-Appeal Brief was mailed on February 21, 2006. Thus, this Appeal Brief is being filed within two months from the mailing of the Decision. Applicant hereby Petitions for a one month extension pursuant to 37 CFR 1.136.

**REAL PARTY IN INTEREST**

The real party in interest is Davo Financial Services LLP of Montclair, New Jersey.

Filed by Express Mail  
(Receipt No. EV 732 743644US)  
on 4-5-2006  
pursuant to 37 C.F.R. 1.10  
by francesc dayle

## **RELATED APPEALS AND INTERFERENCES**

No other appeals or interferences are known which will directly affect or be directly affected by or have a bearing on the Board's decision in the pending appeal.

## **STATUS OF CLAIMS**

Claims 1-8, 10, 24-38, 40-41 have been cancelled leaving claims 9, 11-23, 39 and 42 pending in the application. All of the claims, i.e., claims 9, 11-23, 39 and 42 stand finally rejected and are on appeal. A copy of the claims 9, 11-23, 39 and 42 which are on appeal, appear in the appendix hereto.

## **STATUS OF AMENDMENTS**

No amendment was filed in response to the Final Rejection dated November 16, 2005.

## **SUMMARY OF THE INVENTION**

The present invention relates to a method for impounding escrow funds (by way of example, tax payments) during the course of a merchant handling a credit card transaction.

Typically, when a merchant receives a credit card in payment for a transaction, he submits the credit card for authorization of the particular transaction. An electronics funds processor (EFP) processes the amount and gets authorization from the credit card issuer. When it receives such authorization, it advises the merchant and funds are transferred accordingly.

One of the most difficult problems being faced by Federal and State Authorities is the collection and payment of taxes from merchants. Such taxes include sales and use taxes and the like. While many systems are in place to provide that the merchants report the taxes on the transaction, one of the major difficulties that the authorities face is the ability to collect such taxes. As the actual payment of the taxes is under control of the merchant, the merchant can

delay, selectively pay, or purposely not pay at all in the hope of possibly settling with the tax authorities or somehow delaying or avoiding payment.

The method of the invention is to make use of such credit card authorization systems for making tax payments (or other escrow amounts). There is an automatic debit of the tax amount directly from the funds received by the electronic fund processor from the credit card issuer, even before the merchant gets his money. The tax amount is actually debited from the money coming in from the credit card issuer and never even reaches the merchant. Therefore, tax payments can be made without any involvement or control of the merchant. This lack of involvement of the merchant is what can make such a system successful for the tax authorities. With the present invention, the tax authorities can be assured of the payment independently of the merchant.

In the Amendment submitted on March 18, 2005, from pages 15-17, applicant submitted evidence of the frustrating efforts of the tax authorities in being able to make such collections without the merchant being able to subvert such collections. It was pointed out how the present system will solve that problem. There were also attached to that Amendment declarations pointing out the benefits that would be achieved by the system of the present invention, and how the present invention is not obvious from current existing systems.

Independent claim 9, the only independent claim, generically describes the usual authorization transaction but then goes on to claim that the amount to be escrowed (for example, tax amount) is removed from the authorized amount and placed into an escrow account whereupon the crediting to the merchant will only be of the net amount for the transaction without the merchant ever receiving the amount being escrowed. In this manner the funds are

placed into escrow account without control of the merchant and without any special action needed by the merchant to place those funds into the escrow account.

This is described on page 4 of the specification, in the first full paragraph; page 7 beginning with the last three lines and continuing until the last paragraph of page 8, and in Fig. 1 and its corresponding description on pages 13 and 14; and Fig. 2 and its description in the center of page 16.

Claims 11-14 add the additional features that other service fees can likewise be subtracted along with the escrow amount that is being withheld before the net is sent to the merchant. This is described in the specification on the bottom of page 3 to the top of page 4; on pages 8 and 9, in connection with the description of Fig. 1, and on the top of page 15.

Claims 15-18 describe that not only can the inventive method be used for regular tax but also for back taxes. This is described on page 11.

Claim 19 adds the additional feature that this method can also be used as a method of forced savings by the merchant whereby the money is extracted before any net amount is credited to the merchant's actual account. This is described in the specification in the center paragraph on page 12.

Claim 20 adds the additional feature that the method will be able to exempt those transactions that are tax free and on those amounts no escrow funds will be subtracted. This can be found in the specification on page 16 referring to Fig. 2.

Claims 21 and 22 add the additional features that the information on the amount in the escrow account can be provided to the merchant and/or the escrow account provider, and it can be provided in combination with a sales draft. This is supported in the specification on page 2 in the center and page 15 in the center.

Claim 23 adds the additional feature that the escrow account information can be provided to the merchant via a secure website. This is explained in the specification on page 9, the first full paragraph and page 10 next to the last paragraph.

Claim 39 adds that a further authorized transaction can also be subtracted before sending the net to the merchant. This is explained in the specification on page 3, first full paragraph.

The last claim, claim 42, adds the ability of not only handling credit card transactions, but within the same system handling cash transactions. This is explained in detail in the specification at page 4, page 5, the beginning of the second paragraph of page 6 and continuing onto the top of page 7.

#### **GROUND OF REJECTION TO BE REVIEWED ON APPEAL**

Claims 9, 11-23, 39, and 42 stand rejected under 35 USC 103(a) as being unpatentable over Cretzler (US 5,644,724), in view of Hanna, et al. (US 6,230,928).

#### **ARGUMENTS**

With regard to claim 9, the examiner essentially relied upon Cretzler as disclosing substantially all of the elements of claim 9, with the exception that Cretzler involves “the merchant paying the tax amount(s) directly to the taxing authorities, rather than depositing the funds into an EFP escrow account.” In that regard, the examiner relied upon Hanna, et al. stating that Hanna, et al. includes an EFP escrow account into which sales tax amounts of a merchant are directly deposited for later payment to the taxing authorities. The examiner concluded that it would have been obvious to modify Cretzler to send the calculated sales tax amount to an EFP escrow account for later payment to the taxing authorities.

However, the key element that has been not found by this combination is the fact that in applicant’s claimed invention, the deposit into the escrow account is done without the

participation of the merchant and specifically that the merchant has no control or involvement over this deposit. The claims specifically point this out. Quite the contrary, the examiner himself admits that Cretzler “involves the merchant paying the tax amounts”. Hanna, et al., does not cure this point. Hanna, et al., does not provide for an EFP depositing into an escrow account. The examiner has failed to find any reference, alone or in combination, that provides such escrowing being done by the EFP provider and not the merchant.

More particularly, the examiner has skillfully paraphrased the elements of present claim 9 to suit what Cretzler shows, but has not included the actual limitations recited in claim 9. As a result, Cretzler may show the elements recited by the examiner, however, Cretzler does not show the elements claimed in the present invention.

The examiner states that all elements of the claimed invention have been shown by Cretzler, with the exception of the use of an EFP escrow account. For that he cites Hanna, et al. However, even here, the examiner fails to include the specific limitations of this element and instead paraphrases it in a manner so that it reads on what Hanna et al shows, but doesn't read on the language of the claim.

As a result, the examiner concludes that Cretzler (taken for what the examiner has paraphrased the claim) in combination with Hanna et al. (taken again for what the examiner has again paraphrased the claim) makes claim 9 obvious (as well as other claims). However, the examiner has failed to quote the exact language of claim 9 and therefore has failed to show where the exact language of claim 9 is shown by the combination of Cretzler and Hanna, et al. Examples of such failure will be presented.

(a) With respect to the step of crediting the merchant account, the examiner recites that Cretzler teaches:

“Crediting a tax account of the merchant with payment of the tax amount.”

However, the exact language of the claimed element is:

“Crediting a merchant escrow account by EFP with the escrow amount, said escrow amount being debited from the received EFP payment.”  
(Emphasis added.)

The examiner has failed to take into consideration that the claim is limited to the crediting taking place by the EFP. Furthermore, the claim is very specific in stating that the amount is debited from the received EFP payment.

The examiner has failed to take into consideration these specific claim limitations, which are not shown by Cretzler, and these limitations (along with others) focus on key features of the present invention. At no point has the examiner found any reference where the crediting is done by the EFP and where the amount debited is from the received EFP payment.

Quite the contrary, in Cretzler it is the merchant that submits the money from his own funds when he wants, and makes it available for payment.

(b) Concerning the amount winding up in the merchant account (the amount that the merchant actually receives) the examiner simply states:

“It being inherent to the method of Cretzler that the credit to the merchant (at the end of a taxing period) is a net credit”.

Thus, the examiner simply indicates that ultimately, the amount that winds up in the merchant’s account is a net amount. However, that net amount in the merchants account can come about in two ways. One way is by putting in the total amount, including both the amount that the merchant must get plus the tax amount and thereafter, the tax amount can be subtracted from that account leaving the merchant with a net of only the amount that the merchant should receive after the tax payments. The other method is to only give the merchant the net amount.



All the examiner concludes from Cretzler is “at the end of a taxing period” the merchant winds up with a net amount which excludes the tax amount.

However, Cretzler teaches that the total amount is deposited, and it is only when the merchant desires to pay he authorizes the money to be taken out of his account. Of course, at the end of the taxing period, the merchant winds up with a net amount. However, that is not what the claim says. The claim limitation recites as follows:

“Crediting a merchant account by EFP with only a net payment for the one or more authorized transactions, said net payment being credited by an amount equaling the received EFP payment reduced by the escrow amount.” (Emphasis added.)

In the present claim, the net payment results not because the total amount is deposited in the merchant’s account and later the tax amount subtracted by the merchant for paying the tax whereby he ends up with a net amount (as the examiner states). In our case, he never receives anything but the net amount.

(c) The very last clause of the method claim recites:

“Wherein the determining, forwarding and crediting steps are executed by the EFP upon receipt of the payment request for the transaction via the merchant POS terminal, without depending on subsequent action by the merchant relating to the merchant escrow account”. (Emphasis added.)

The examiner has never even mentioned this limitation and never even considered where it is shown in any of the references. He totally disregarded this limitation entirely, namely that there is no involvement of the merchant relating to the escrow account.

However, this limitation is significant in that it is one more way of distinguishing over Cretzler, Hanna, et al. and the combination thereof.

This limitation also points out that all of these steps of determining, forwarding and crediting are executed “upon receipt of the payment request for the transaction.” Thus, the step

of crediting, which the claim recites as crediting with the net amount directly from the received funds with the tax amount being sent to the escrow account, takes place for each transaction. This is specifically contrary to what the examiner quotes Cretzler for. The examiner indicates that in Cretzler it is credited to the merchant “at the end of a taxing period”. Our claim recites that it is upon receipt of the request for the transaction that such crediting takes place.

This same claim limitation also recites:

“Without depending on subsequent action by the merchant”.

The examiner has not even quoted this part of the claim and has not even addressed it.

(d) In his rejection, the examiner points out what he believes is the only missing item of Cretzler. Again, however, he paraphrases the missing item without quoting from the claim. In paraphrasing the missing item, the examiner just indicates that in Cretzler, it involves

“The merchant paying the tax amount directly to the taxing authorities, rather than depositing the funds into an EFP escrow account for later payment to the taxing authorities on behalf of the merchant.”

Skillfully, the Examiner makes the distinction of where the tax funds come from (Cretzler-directly, Hanna-escrow account). However, the Examiner doesn’t address who makes the payment. He admits that in Cretzler, the merchant makes the payment, but never addresses this point from Hanna, et al. In fact, (as will be pointed out later) in Hanna it is also the merchant who makes the payment, into the escrow account. However, claim 9 recites that the EFP makes the payment into the escrow account.

(e) The examiner cites Hanna et al. for the alleged missing escrow account. However, again he paraphrases and again does not quote the words of the claim. The examiner indicates that in Hanna, et al. there is an EFP escrow account into which sales tax amounts of a merchant are directly deposited. The examiner just quotes Hanna, et al., to identify where the account

resides, namely that it is an EFP escrow account. However, he neglects to quote that portion from the claim when it says that it is the EFP that deposits it, not the merchant. The issue is not where the account resides. This is a method step involving who does the depositing of the money into the account. The examiner carefully avoids identifying who does the depositing, when this is a critical limitation in the claim. In Hanna, et al. it is the merchant that does the depositing. In the present claim it specifically says that the EFP does the depositing.

### **Response To Arguments In Final Office Action**

In the examiner's Response to Arguments, on page 7 of his final rejection, in paragraph 7, he simply says that it is not proper to attack each reference individually, but it is the combination that must be addressed. However, the references must first show what the examiner cites them for individually. The examiner cites Cretzler and explains what he determines from Cretzler. Applicant's arguments pointed out where Cretzler does not support the claim language and not even the paraphrased language for which the examiner cited it. Furthermore, the examiner cited Hanna, et al. to show "third party" escrow functionality. Hanna, et al. does not have "third party" escrow functionality. It shows an escrow account, but one that is set up by the merchant.

Accordingly, the argument presented to the examiner was that as neither Cretzler nor Hanna et al. have any such third party involvement, the combination cannot provide this claimed feature in claim 9.

### **Disclosure of Cretzler**

Cretzler teaches a specific system whereby there is a device that the merchant accesses for transaction approval which also calculates the amount of the tax. After the merchant receives the authorization code he issues a receipt to the purchaser. The microprocessor then stores the

transaction information including the amount of authorization allocated in taxes. (Column 4, lines 45-50).

At the end of the business day, the merchant enters a transmit code into the computer which causes the computer to send tax information to the bank of the merchant. Such includes:

1. the date and tax ID of the merchant;
2. the total sum of collected taxes;
3. the allocation of the total sum of collected taxes to the individual taxing authorities;
4. the date merchant expects to deposit the collected tax on the merchant bank; and
5. an authorization code to instruct the merchant bank to wire transfer the collected sums to the appropriate taxing authorities. (Column 4, lines 53-68).

Accordingly, the merchant must deposit the collected tax funds. The tax funds are not automatically removed before the merchant gets his money and do not automatically deposited by the EFP without the merchant's intervention. A merchant must deposit the money and then he must authorize the payment.

Cretzler continues on column 5, in the first paragraph by again pointing out that after receiving the transaction data the corresponding merchant bank "waits a predetermined period of time to allow the merchant to deposit the collected funds into the account of the merchant bank before wire transferring the sums to the taxing authority banks".

It also points out that if the merchant has provided the bank with an authorization code "and if funds are already on deposit" the merchant bank will wire transfer the funds indicated on the next business day.

With respect to service banks, Cretzler points out in column 5, lines 19-35 that at the end of the day the merchant enters the transmit code. To cause “an authorization code to instruct the service bank to wire transfer the allocated sums to the appropriate taxing authorities.”

When the service bank receives this authorization it “waits a predetermined period of time to allow the merchant to return the debits receipts to the service bank for processing.” Alternately, “if the merchant has provided the bank with an authorization code and the sums are already on deposit, the merchant bank will wire transfer the sums allocated the next business day.” (Column 5, lines 35-42).

Again in column 5, lines 55-60, Cretzler describes that for cash transactions “a merchant can enter the sum of collected taxes... and instruct the bank to wire transfer, from the account of the merchant the collected taxes...”. Alternately, for credit and debit card transactions “the merchant can notify individual and selected ones of the credit card or debit card service banks... and instruct the service bank to wire transfer from the account of the merchant those sums allocated to taxes.”

It is therefore evident from Cretzler that it is the merchant who must instigate the payment. Without the merchant giving an authorization to pay, an authorization code, instructions to wire transfer, an indication of where to take the sums from, etc., no taxes will be paid. Throughout Cretzler it is the merchant that instigates and causes the payment to be made.

Accordingly, if the merchant desires to sit and wait one day, one month, six months, one year, etc., no payment will be made to the taxing authorities without his specific authorization to process the actual payment. The tax funds are under his control and until he authorizes proceeding with the payment no such payment will be made for each and every transaction.

Furthermore, from Cretzler there is absolutely no indication of any association between the account holding the taxes and the account in which the sum for the transaction is deposited in the merchant account. By way of example, if the particular sales item is \$100, and it is calculated that there is \$10 due in taxes, the merchant is credited with the \$110 into his account. In connection with the merchant bank, it clearly indicates that the merchant has to indicate when he is going to deposit the money (column 4, line 63; column 5, lines 5-8). In the case of the service bank it must wait until the merchant returns the debit receipts or until it receives an authorization code and the funds are already on deposit (column 5, lines 30-40 and lines 65-67). In no place does Cretzler in any way indicate that it is the EFP that sets aside the money in a separate account and it controls the deposit of the tax money in the escrow account so that the merchant never even gets the tax money into his own accounts. In the present invention, the only monies that the merchant gets is the net amount after the taxes have been already subtracted. Thus, in the example given, only \$100 would be deposited by the EFP in the merchant account. The \$10 is never deposited in the merchant account. It is always deposited immediately by the EFP in the escrow account which is under control of the EFP.

Nothing in Cretzler teaches that the EFP subtracts the tax money before paying the merchant and sends the merchant only the transaction money and not the tax money. Nothing in Cretzler teaches that the EFP is the one that credits the tax (escrow) account by itself without any authorization code by the merchant for such deposit based upon each and every transaction. Nothing in Cretzler teaches an association between the merchant account and the tax account both of which are controlled by the EFP so that the EFP deposits only a portion of the total amount into the merchant account and applies another portion (the tax amount) to the escrow account.

### **Disclosure of Hanna, et al.**

The disclosure of Hanna et al. teaches a merchant ATM machine. It is an automated merchant banking apparatus. It is an apparatus that the merchant himself utilizes and controls. In every step of Hanna it is the merchant who makes use of the piece of equipment. It is the merchant who has control and provides instruction on every step of the way.

The examiner's reference to column 11, lines 45-59 of Hanna, et al, still relates to the merchant making use of the device. He can establish a tax account and even a tax escrow account which may be located at a bank. However, the merchant does the transferring. It mentions that the money can be electronically transferred, but it is under the merchant's instruction. It does not even mention an EFP of the type in Cretzler. Furthermore, it is the merchant that operates to put in the money, to segregate receipts on the basis of categories, etc. Furthermore, it is the merchant who instructs to transfer funds from an escrow account that he has deposited funds into.

There is absolutely no teachings about a third party depositing the money into the escrow account. It is the merchant who deposits the money into the escrow account and then instructs the third party to make payments from the escrow account. However, it is the merchant that deposits the money not a third party.

### **The Combination of Cretzler and Hanna et al.**

Combining Hanna, et al. into Cretzler does not provide the teaching for having a third party separate monies and never even putting the funds into the merchant's account, but separating and putting it into a separate escrow account. Neither Cretzler nor Hanna, et al., provide that it is the third party that makes the deposit. Neither reference provides the teaching that it is the third party who has the funds available and the merchant never receives the funds in

his account. Therefore, one skilled in the art even combining the references would not learn a method where the merchant receives only a portion of the transaction, not including the escrow tax money which he never receives, and it is never entered into his account.

The claimed invention is that the tax monies are not under control of the merchant, but of the EFP. The merchant never has to deposit the money, never receives the money, never has control over the money, the money is extracted before the merchant receives it. Therefore, tax payments can be made without any involvement of the merchant to either deposit, authorize, instruct, or in any way indicate that the payment should be made. This lack of involvement of the merchant is totally absent from Cretzler and even when adding the combination of Hanna et al. is still does not provide for any teaching of the merchants themselves being out of the picture and the EFP making the deposit directly into the escrow account.

#### **Independent Claim 9**

Claim 9 is believed to address the differences over the combination of references cited by the examiner. Specifically, inter alia, the claim indicate that the escrow (tax) account is credited automatically by EFP into the escrow account not by the merchant. Furthermore, the claim states said that the merchant's account is credited with a net payment after reducing the amount by the escrow account.

The claim further recites that the merchant account is credited with only the net payment of the portion of the authorized transaction reduced by the escrow amount. Thus, the claim specifically recites that if the transaction and the tax are \$110, the merchant account only receives \$100. He never receives the \$10 in his account. The \$10 is automatically removed and put into his escrow account so that he only receives the \$100.



The claim further recites that the various steps of determining, forwarding and crediting are all executed by the EFP upon the receipt of the payment request “for the transaction”. Thus the only request that the merchant is involved in is the request relating to the initial transaction. There is no further subsequent action by the merchant in connection with the merchant escrow account.

#### **Claim 18**

The examiner rejected this claim indicating that it is well known to increase a tax rate by garnishment and therefore it would have been obvious to further modify Cretzler to increase the tax rate by the garnishment amount.

Firstly the examiner has not cited any reference in support of his contention. Furthermore, even assuming, for argument sake, that it would be well known to garnish amounts of collection for back taxes, it is believed that one skilled in the art would not think of combining that with an automatic deduction of sales tax from clearing transactions and getting authorizations of payment of credit cards. Cretzler deals with a global system, namely where the same system is applied to all users. This is no indication of any ability to tailor a particular system to a particular user. In order to permit garnishment and payment of back taxes and increase the percentage, it is necessary to increase on an individual basis the amounts deducted. There is no teaching or suggestion in Cretzler to provide individual tailoring of the system for a particular merchant.

#### **Claim 19**

The examiner had rejected claim 19 in that Hanna et al. comprises a merchants savings account and it would therefore be obvious to further modify Cretzler to establish the escrow account as a merchant savings account.

Combining the Cretzler and Hanna et al. references as the examiner has suggested would not provide for a merchant savings account that is not under control of the merchant. As previously argued, the merchant is still the one in control while in the present claimed invention, it is a third party that extracts the escrow amounts and the merchant only receives the net amount after the extracted portion has been removed. The extracted portion is not under control of the merchant.

Accordingly, the present claim 19 provides for a method of “forced savings” whereby the merchant can have the amounts removed automatically from his transactions without his having to control it and in fact, without his ability to control such escrowed amounts. This “forced savings” is not what would result from the combination of Cretzler and Hanna et al. The combination from Cretzler and Hanna et al. would simply be the merchant controlling when the money is extracted and that would not be the concept of “forced savings” as presented in claim 19.

#### **Claim 42**

Claim 42 incorporates the handling of cash transactions in addition to the credit card transactions. Regarding claim 42, the examiner indicated that the method of Cretzler accommodates cash transactions. While Cretzler does briefly indicate that he accommodates cash transactions, such again are completely under the control of the merchant. Although Cretzler will calculate all of the tax information, until the merchant gives instructions for payment of the taxes for the case transactions, such will not be made.

On the contrary, claim 42 is specific to indicate that once the cash transaction is entered then the amount of the taxes is automatically debited from a source set up by the merchant so that the tax money is again removed from the merchant’s access and placed together with the

other tax monies being escrowed so that they are no longer under the control of the merchant but can automatically be paid to the tax authority. Such is not taught by Cretzler.

### **Unobviousness of Claimed Invention**

In support of applicant's argument that one skilled in the art would not conceive of the present invention, applicant had submitted declarations in the amendment dated March 18, 2005. Such declarations were submitted under Section 37 CFR Section 1.132. Such declarations were entered by the examiner in his office action issued June 14, 2005 in paragraph 3 of this office action. Copies of such affidavits are again attached in the Evidence Appendix.

Applicant suggested that that one of ordinary skill in the art would be represented primarily by credit card processors and payroll companies, and secondarily by tax software companies and by government groups seeking to achieve sales tax reform such as the Streamlined Sales Tax Project (SSTP). The SSTP is a cross-industry group organized in March 2000 by state government representatives to develop a simplified sales and use tax administration system (see, e.g., "Streamlined Sales and Use Tax System: Adoption of Landmark Multistate Agreement", Pillsbury Winthrop LLP Stats & Local Tax Bulletin, <https://www.pmstax.com/state/bull0211.shtml>, November 2002).

Payroll companies and credit card processors respectively perform payroll tax impounding and credit card processing via EFT, and would therefore arguably have the necessary skills required to understand and practice the present invention. As the present invention presents a new business opportunity for such companies, it would have been thought that they would in addition have the necessary motivation for developing and practicing the present invention. However, that has not been the case.

Applicants submitted under 37 C.F.R. § 1.132 declarations made by Mr. Alan S. Klein and Mr. James G. Robertson, which are again enclosed in the Evidence Appendix. Mr. Klein was Chief Executive Officer and President of Ace Payroll Services Inc. Mr. Robertson is a retired and former Vice President of Automatic Data Processing (ADP). As is evident from their declarations, both Mr. Klein and Mr. Robertson have extensive experience in payroll tax industry.

Mr. Klein and Mr. Robertson each acknowledges that they are familiar with the present invention, and submits as an opinion that the present invention provides an attractive business opportunity that would be investigated by payroll companies and/or other financial services companies if known to these companies. Each further submits, to the best of his knowledge, that the present invention has not been identified, considered or used by anyone other than Applicants. Mr. Klein acknowledges that it is his informed belief that the method of Applicants' claimed invention has in particular not been considered by First Data Corporation (FDC), which acquired Taxware International Inc. (Taxware) in 2001, a leading developer of global transaction-based tax calculation and compliance systems, and holds itself out to be "world's largest independent, third party transaction processor " (see, e.g., [http://www.firstdata.com/svcs\\_intl\\_fdintl.jsp](http://www.firstdata.com/svcs_intl_fdintl.jsp)). FDC's businesses include EFP services and sales of tax software, thereby uniquely positioned the company as having the skill sets necessary to practice the present invention.

Applicants offer the following rationale to explain why the present invention has apparently not been considered by these groups and others in the financial services industry, and why the present invention is accordingly nonobvious.

Applicants developed the present invention in large part in response to insights provided by one of the inventors (himself a “merchant” or “seller”) into the capabilities of third party payroll services and credit card processors. The vast majority of sellers today use a third party payroll service and a credit card processor respectively for managing payroll tax compliance and credit/debit transactions, and yet many of these same sellers struggle to manage sales and use tax compliance. As the majority of sales transactions today are executed as credit/debit card transactions, the inventors recognized the potential for linking sales and use tax compliance to credit/debit card transaction processing, and developed the claimed method based on this inventive insight.

Applicants are not alone in their recognition of a need for improving sales and use tax compliance. The above referenced SSTP was formed because “the existing-and notoriously antiquated-state sales and use tax system has been widely recognized by state governments and businesses alike as overly complex and unduly burdensome.” Ibid. While sellers have expressed interest in obtaining a third party passive method to calculate, collect, file and remit sales and use tax on their behalf, the current evidence (as expressed, for example, by the above-described declarations) suggests that no one has yet provided a solution in the framework of the present invention. Applicants offer the following explanation for the present state of this art.

Applicants submit that one aspect of the unobviousness of the present invention rests in its ability to bridge seemingly disparate industries who share a common IT thread of processing funds via EFT in order to produce the intended result. These industries, including credit card processors, payroll companies, tax software companies and State governments (as expressed, for example, through the SSTP), each hold a different piece of the puzzle to implementing third party sales and use tax processing. But so far, no single industry has developed the insight and

taken the initiative to piece together the disclosed elements of the present invention. Applicants submit that, if the present invention were truly obvious to one skilled in the art as of the time of invention, in view of the benefits provided, the present invention would be a part of the current tax collection lexicon by now.

Consider the amount of effort being expended by the SSTP since its inception in March 2000 to resolve some of the current sales and use tax issues facing state governments and sellers in light of the Supreme Court decision in *Quill Vs. North Dakota*. See *Quill Corp. v. North Dakota* (91-0194), 504 U.S. 298 (1992). As stated by Charles D. Collins, Jr., a co-chair of the SSTP, in a press release from the SSTP, “The states are at a point in their discussions where they need input and suggestions from companies who have been intimately involved in sales tax return preparation on a national scale. We have many questions regarding how individual elements of the proposed streamlined sales tax system can be accommodated by the companies who will be utilizing the system.” See Ellen B. Marshall, “Streamlined Sales Tax Project”, Press Release, [http://www.streamlinedsalestax.org/press\\_rel/519press.pdf](http://www.streamlinedsalestax.org/press_rel/519press.pdf) , May 19, 2000.

As described in the SSTP press release Mr. Collins requested that a process be developed to execute the collection and filing of sales tax on behalf of a seller. Several major tax software companies including Taxware and Vertex, and hardware companies including Pitney Bowes and Hewlett-Packard, were awarded contracts and were performing R&D for the SSTP (see, e.g., Pitney Bowes press release, [http://pb.com/cgi-bin/pb.dll/jsp/EditorialDetail.do/editorial\\_id=ed\\_8787&channelNa](http://pb.com/cgi-bin/pb.dll/jsp/EditorialDetail.do/editorial_id=ed_8787&channelNa), October 19, 2000).

In 2003, a memorandum was written by Andy Sabol, director of the Sales and Use Tax Divisions of North Carolina Department of Revenue to Diane Hardt and Scott Peterson, Co-

Chairs of the SSTP detailing the progress made on the Tax Solution Pilot (see, e.g., Andy Sabol, “Streamlined Sales Tax Project”, Memorandum, <http://www.streamlinedsalestax.org/recap%20of%20pilot%202003.pdf>, March 26, 2003). As described in this memorandum, as of this time, results continued to be quite limited, and problems persisted (for example, in integrating third-party vendor and seller systems). Thus, it appears that SSTP has not yet successfully developed a process for third-party processing of sales taxes. Moreover, Applicants have found no evidence to suggest that any of the research supported by the SSTP to date has suggested the solution provided by the Applicants’ invention.

Further evidence as to the difficulty major tax solution companies are experiencing in creating a solution for sales and Use Tax collection can be found on the website of Taxware (see <http://www.taxware.com/solutions/salesusetax.html>). Currently, the website claims that:

Taxware's Sales and Use Tax Solution is the industry's most robust and flexible tax calculation and reporting system, combining market leading tax research and technology. Operating as an integral part of your existing financial or accounting system, the Sales and Use Tax Solution automatically calculates taxes for sales, purchases and rentals. Key features of the Taxware Sales and Use Tax Solution are: Completes all tax calculations including exemptions, special rates, caps and thresholds. Seamlessly transmits tax calculation results to your business' accounting or finance software for presentment on a transaction document or UI screen Records tax calculation results in the Sales and Use Tax Solution Audit File for later reporting. Provides comprehensive reporting with line item detail. Includes the industry's most comprehensive Product Taxability Matrix. Handles full and partial exemptions and has the ability to prevent overrides. Operates in conjunction with Taxware's WorldTax Solution for global tax calculation.

As described on the website, and in contrast to Applicants’ claimed invention, Taxware’s approach provides a stand-alone system that is used by sellers to calculate sales and use taxes and forward sales tax payments to the appropriate tax authorities. Significantly, Applicants were unable to find any information on this website or elsewhere by which Taxware claims to offer or

to be planning to offer an automatic and passive EFP-driven solution for the collection and payment of sales and use taxes such as is disclosed by Applicants' claimed invention.

In summary, Applicants express the opinion, based on the evidence offered above, that no other entity, including the SSTP, tax software developers, hardware developers, credit card processors, payroll companies or other financial services institutions, has disclosed nor did they ever suggest the capability for executing a tax collection process according to the principles of Applicants' claimed invention. This opinion is further corroborated by the opinions of Mr. Klein and Mr. Robertson, acknowledged experts in the payroll tax industry, as discussed above and recorded in the attached declarations.

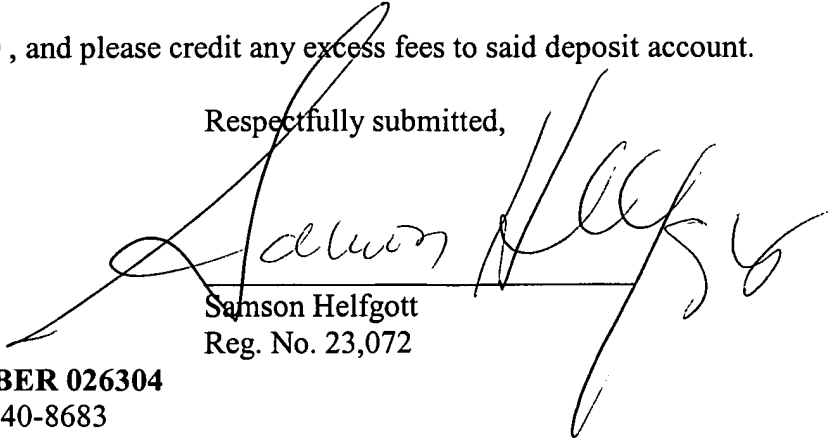
### **CONCLUSION**

For the foregoing reasons, the final rejection of the claims should be reversed.

### **FEES**

To the extent necessary, applicants petition for an extension of time under 37 CFR 1.136. Please charge any shortage in the fees due in connection with the filing of this paper, including extension of time fees, to the deposit of account Katten Muchin Rosenman LLP, Deposit Account No. 50-1290 , and please credit any excess fees to said deposit account.

Respectfully submitted,



Samson Helfgott  
Reg. No. 23,072

**CUSTOMER NUMBER 026304**

Direct Phone: (212) 940-8683

Fax: (212) 940-8987

Docket No 3263/Brwn (021180-00053)

SH/mas



## **EVIDENCE APPENDIX**



## APPENDIX

9. A method for impounding escrow funds by an electronic funds processor (EFP) from payments made via electronic funds transfer (EFT) from credit/debit card transactions transacted between a merchant, the EFP and one or more credit/debit card issuers, the EFP and one or more credit/debit card issuers being interconnected by means of at least one computer network, wherein the credit/debit card transactions are electronically initiated by the merchant via a merchant point of sale (POS) terminal that communicates with the EFP, and are electronically processed by the EFP and the one or more credit/debit card issuers, wherein the credit/debit card transactions include authorization requests made by the merchant, authorized transactions granted by the one or more credit/debit card issuers, payment requests made by the merchant concerning one or more authorized transactions, and payments made by the one or more credit/debit card issuers, the method comprising the steps of:

receiving a payment request electronically transmitted by the merchant via the merchant POS terminal, said payment request concerning one or more authorized transactions;

determining an escrow amount based on the one or more authorized transactions;

forwarding the payment request to at least one of the one or more credit/debit card issuers electronically via the at least one computer network;

receiving an EFT payment made by the at least one credit/debit card issuer via the at least one computer network for the one or more authorized transactions;

crediting a merchant escrow account by EFT with the escrow amount, said escrow amount being debited from the received EFT payment; and

crediting a merchant account by EFP with only a net payment for the one or more authorized transactions, said net payment being credited by an amount equaling the received EFP payment reduced by the escrow amount;

wherein the determining, forwarding and crediting steps are executed by the EFP upon receipt of the payment request for the transaction via the merchant POS terminal, without depending on subsequent action by the merchant relating to the merchant escrow account.

**11.** The method of claim 9, wherein the net payment is further reduced by one or more service fees specified by a the one or more credit/debit card issuers.

**12.** The method of claim 9, wherein the net payment is further reduced by one a service fee specified by the EFP.

**13.** The method of claim 9, wherein a service fee specified by an escrow account provider is debited from the escrow amount.

**14.** The method of claim 13, wherein the escrow account provider is selected from the group consisting of the EFP, a merchant bank and other credit/debit card service providers.

**15.** The method of claim 9, wherein the escrow amount represents a tax owed with respect to the payment requests.

**16.** The method of claim 15, wherein the tax owed is determined as a function of a tax rate for a tax jurisdiction identified to the payment requests.

**17.** The method of claim 16, wherein the tax rate is associated with a schedule selected from the group consisting of sales tax schedules, value-added tax schedules and garnishment schedules.

**18.** The method of claim 17, wherein the tax rate is increased by a predetermined amount over the tax rate of the jurisdiction to facilitate payment of back taxes.

**19.** The method of claim 9, wherein the escrow account is a merchant savings account.

**20.** The method of claim 9, wherein the determining step further comprises the steps of:  
identifying one of the one or more authorized transactions is exempt from impounding escrow funds; and

determining the escrow amount based on the others of the one or more authorized transactions.

**21.** The method of claim 13, further comprising the step of providing the information about the escrow portion to at least one of the merchant and the escrow account provider.

**22.** The method of claim 21, wherein the information about an escrow portion is provided in combination with a sales draft.

**23.** The method of claim 9, further comprising the step of providing escrow account information to the merchant via a secure web site.

**39.** The method of claim 9, further comprising the step of:

forwarding an issuer payment request to the at least one of the one or more credit/debit card issuers concerning one of the one or more authorized transactions; and

crediting the merchant account with an EFP a payment made by he one credit/debit card issuer, said EFP payment corresponding to the one authorized transaction;

wherein the net payment is further reduced by an amount corresponding to the one authorized transaction.

**42.** The method of claim 9, the EFP further performing the steps of:

receiving a cash transaction report reported by the merchant;

determining a second escrow amount based on the cash transaction report;

debiting the second escrow amount from a source of merchant funds; and

crediting the merchant escrow account with the second escrow amount.